

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-08 NSC-05
CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00
COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04
SIL-01 L-03 H-01 PA-01 PRS-01 AGRE-00 /085 W
-----171552 078983 /43

R 171330Z FEB 77
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC 0128

C O N F I D E N T I A L SECTION 1 OF 3 BRASILIA 1304

PASS TREASURY WILLIAM MCFADDEN

E.O. 11652: XGDS-2
TAGS: EFIN, BR
SUBJECT: BALANCE OF PAYMENTS FORECAST

1. SUMMARY: WITH THE 1976 RESULTS IN, THE EMBASSY HAS ATTEMPTED TO PROJECT BRAZIL'S BALANCE OF PAYMENTS FOR 1977. COMPARED WITH INTERNAL CENTRAL BANK PROJECTIONS (WHOSE POSSESSION BY THE EMBASSY SHOULD NOT RPT NOT BE REVEALED), OUR ESTIMATES SHOW A SOMEWHAT BETTER PERFORMANCE ON THE EXPORT SIDE, PARTICULARLY EXPORTS OF BASIC (AGRICULTURAL) PRODUCTS. WE ESTIMATE EXPORTS CONSERVATIVELY AT AROUND \$12.1 BILLION, WHILE THE CENTRAL BANK IS PROJECTING THEM AT \$11.6 BILLION. WE BELIEVE THE OFFICIAL FORECAST DELIBERATELY UNDERESTIMATES EXPORT RECEIPTS IN ORDER (A) TO STAVE OFF PRESSURES TO EASE UP ON IMPORT CONTROLS AND (B) TO POINT TO A BETTER-THAN-EXPECTED OUTTURN IN THE HOPE OF STRENGTHENING FOREIGN CONFIDENCE FURTHER. WE FORECAST A TRADE DEFICIT OF \$500 MILLION AND A CURRENT ACCOUNT DEFICIT OF \$4,661 MILLION, AS COMPRED WITH \$1,000 MILLION AND \$5,161
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MILLION, RESPECTIVELY, BY THE CENTRAL BANK. WE EXPECT OFFICIAL RESERVES TO DROP BY \$500 MILLION DURING 1977 WHILE THE OFFICIAL PROJECTION FORESEES NO CHANGE. THE FOREIGN DEBT IS ESTIMATED BY US AT YEAR-END AT ABOUT \$29.5 BILLION, AND OFFICIAL RESERVES AT SLIGHTLY LESS THAN \$6.0 BILLION. END SUMMARY.

2. THE FOLLOWING TABLE GIVES THE 1976 BLANCE
OF PAYMENTS RESULTS TOGETHER WITH THE CENTRAL
BANK ESTIMATES, INDICATED BY 1977I, AND THE
EMBASSY'S PROJECTIONS, INDICATED BY 1977II:

BRAZIL
BALANCE OF PAYMENTS
(\$ MILLIONS)

	1976	1977I	1977II	
EXPORTS (FOB)		10,126	11,600	12,100
IMPORTS (FOB)		12,300	12,600	12,600
TRADE BALANCE		- 2,174	- 1,000	- 500
SERVICES		- 3,848	- 4,161	- 4,161
TRAVEL		(- 320)	(- 350)	
TRANSPORTATION		(- 900)	(- 950)	
INTEREST (NET)		(- 1,800)	(- 2,150)	
PROFIT & DIVIDENDS		(- 350)	(- 400)	
OTHERS		(- 478)	(- 311)	
CURRENT ACCOUNT BALANCE		- 6,022	- 5,161	- 4,661
DEBT AMORTIZATION				
(MEDIUM AND LONG-TERM)		- 2,538	- 3,400	- 3,400
FINANCIAL GAP		- 8,560	- 8,561	- 8,061

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DIRECT INVESTMENT (NET)	870	1,000
IMPORT FIANCING AND SUPPLIERS'		
CREDITS	2,000	2,100
FINANCIAL CREDITS	6,169	3,461
OTHERS (INCLUDING ERRORS AND		
OMISSIONS)	610	500
COMMERCIAL BANKS' POSITION		
(MINUS EQUALS INCREASE IN		
NET ASSET POSITION)	1,000	500
OFFICIAL RESERVES (- EQUALS		
INCREASE)	- 2,089	0 500

ANALYSIS AND COMMENT:

3. EXPORTS: AS ALREDY NOTED, THE DIFFERENCE
BETWEEN THE TWO FORECASTS STEMS FROM THE EXPORT
PROJECTIONS, WITH OUR FIGURE OF \$12,100 MILLION
SHOWING AN INCREASE OF 19.5 PERCENT OVER 1976 AND
THE BANK'S FIGURE OF \$11,600 MILLION SHOWING AN

INCREASE OF ONLY 14.6 PERCENT. THE FOLLOWING
TABLE GIVES THE EXPORT COMMODITY BREAKDOWN
FOR 1976 COMPARED WITH THE 1977 CENTRAL BANK'S
PROJECTION (1977I) AND OUR OWN (1977II):

EXPORTS (\$MILLIONS)

	1976	1977I	1977II
TOTAL	10,216	11,600	12,100
BASIC (AGRICULTURAL)		5,497	6,602
PRODUCTS			7,200
COFFEE (INCL. SOLUBLES)		2,399	2,800
SUGAR	306	320	200
SOYBEANS (EXD. OIL)		1,584	2,095
COCOA (BEANS)		219	265
CORN	165	90	250
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OTHERS	824	1,032	1,250
MINERALS	1,061	1,206	1,200
IRON ORE	995	1,150	1,150
OTHERS	66	56	50
MFG. & SEMI-MFG. PRODUCTS		3,571	3,792
			3,700

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-----171551 079406 /43

R 171330Z FEB 77

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 0129

C O N F I D E N T I A L SECTION 2 OF 3 BRASILIA 1304

PASS TREASURY WILLIAM MCFADDEN

4. AS INDICATED ABOVE WE ARE MORE OPTIMISTIC THAN THE OFFICIAL FORECAST ABOUT AGRICULTURAL EXPORTS. WHILE WE FORECAST AN INCREASE OF 31 PERCENT IN EXCHANGE EARNINGS FROM THESE PRODUCTS, THE CENTRAL BANK ANTICIPATES A RISE OF ONLY 20.0 PERCENT. GOB OFFICIALS HAVE TOLD US PRIVATELY THAT THEY HAVE BEEN PURPOSELY CONSERVATIVE ABOUT THEIR EXPORT PROJECTIONS IN ORDER TO STAVE OFF PRESSURES TO EASE UP ON IMPORT CONTROLS AND TO END THE YEAR WITH A BETTER-TAN-EXPECTED PERFORMANCE WHICH THEY HOPE, WOULD FURTHER STRENGTHEN FOREIGN CONFIDENCE IN BRAZIL. ONE CENTRAL BANK OFFICIAL SAID THAT THE GOVERNMENT DID NOT WISH TO REPEAT THE PERFORMANCE OF 1975 WHEN IT FORECAST \$10.0 BILLION IN EXPORTS AND ENDED UP THE YEAR WITH ONLY \$8.7 BILLION -- EVEN THOUGH THIS REPRESENTED A FAIRLY GOOD INCREASE FROM 1974.

5. ALTHOUGH \$600 MILLION HIGHER THAN THE CENTRAL BANK FIGURE, OUR PROJECTION FOR AGRICULTURAL EXPORTS IS WE BELIEVE, STILL ON THE CONSERVATIVE SIDE, AND THAT, IF PRICES OF MAJOR AGRICULTURAL COMMODITIES HOVER FOR THE REST OF THE YEAR AROUND

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THE CURRENT LEVELS, THE OUTTURN MAY BE CONSIDERABLY BETTER.

6. FOR INSTANCE, OUR \$3.0 BILLION FIGURE FOR COFFEE ASSUMES AN AVERAGE PRICE OF \$2.00/LB, WHILE THE CURRENT PRICE IS ABOUT \$2.37/LB. (WE ARE ASSUMING THAT BRAZIL WILL EXPORT 12 MILLION BAGS OF COFFEE.) ON SOYBEANS, WE HAVE MADE WHAT ARE CONSIDERED CONSERVATIVE ASSUMPTIONS ABOUT EXPORT VOLUMES (3.7 MILLION TONS FOR BEANS AND 4.7 MILLION TONS FOR MEAL). LIKEWISE ON PRICES, WHICH WE HAVE TAKEN AT 95 PERCENT OF CURRENT FUTURES. WE ARE MORE OPTIMISTIC ALSO ABOUT CORN, AS WE SEE VOLUME TAKING A BIG JUMP IN LIGHT OF A GOOD HARVEST AND VERY LITTLE DOMESTIC STORAGE CAPACITY. AS FOR COCOA, WE EXPECT A SIGNIFICANT IMPROVEMENT IN PRICE OVER 1976 (OUR ESTIMATE ASSUMES A \$1.60/LB) WITH LITTLE CHANGE IN VOLUME. ON SUGAR WE ARE PESSIMISTIC AS WE EXPECT CONTINUED WEAK PRICES.

7. ON THE EXPORTS OF MINERALS AND MANUFACTURED AND SEMI-MANUFACTURED PRODUCTS THE TWO PROJECTIONS

ARE PRETTY MUCH IN AGREEMENT. WE FORESEE LITTLE GROWTH IN MANUFACTURED EXPORTS, GIVEN THE CONTINUED SLUGGISHNESS IN THE GROWTH OF BRAZILIAN EXPORTS AND THE APPARENT LOSS IN COMPETITIVE EDGE OF A NUMBER OF BRAZILIAN PRODUCTS -- SUCH AS SHOES. MANUFACTURED PRODUCTS WERE DOWN IN VOLUME BY 5.0 PERCENT IN 1976. WE ANTICIPATE NO BASIC CHANGE IN THE CURRENT EXCHANGE RATE POLICY.

8. IMPORTS: WE ARE IN ACCORD WITH THE CENTRAL BANK'S IMPORT FORECAST OF \$12,600 BILLION, WHICH IN NOMINAL TERMS REPRESENTS A 2.4 PERCENT INCREASE
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OVER 1976, AND IN REAL TERMS A REDUCTION ON THE ORDER OF 5.0 PERCENT -- ASSUMING AN AVERAGE WORLD INFLATION OF 7-8 PERCENT. IF THIS IMPORT TARGET IS MET, BRAZIL WILL HAVE REDUCED IMPORTS IN REAL TERMS FOR THE FOURTH CONSECUTIVE YEAR. OF THE TOTAL IMPORT BILL, PETROLEUM (AND DERIVATIVES) ARE EXPECTED TO AMOUNT TO \$4,467 MILLION, OR THE EQUIVALENT OF 35 PERCENT OF IMPORTS. COMPARED TO 1976, THIS OIL IMPORT BILL REPRESENTS A 17 PERCENT INCREASE, OF WHICH 10 PERCENT IS ATTRIBUTABLE TO PRICE AND ABOUT 7 PERCENT TO INCREASED VOLUME. THE NON-OIL IMPORT BILL, ON THE OTHER HAND, IS EXPECTED TO DROP BY ABOUT 4 PERCENT IN NOMINAL TERMS AND BY ABOUT 10 PERCENT IN REAL TERMS (DEPENDING ON WORLD INFLATION). THE IMPORT PROJECTION ASSUMES A GROWTH RATE OF 3-5 PERCENT. FOLLOWING IS A BREAKDOWN OF PROJECTED 1977 IMPORTS:

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SIL-01 L-03 H-01 PA-01 PRS-01 AGRE-00 /085 W

-----171551 079221 /43

R 171350Z FEB 77

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 0130

C O N F I D E N T I A L SECTION 3 OF 3 BRASILIA 1304

PASS TREASURY WILLIAM MCFADDEN

(\$ MILLIONS)

	1976	1977
TOTAL	12,300	12,600
FUELS AND LUBRICANTS	3,830	4,467
MACHINE & EQUIPMENT	3,500	3,300
IRON & STEEL	555	560
WHEAT	540	360
OTHERS	3,875	3,913

9. TRADE BALANCE: OUR PROJECTED TRADE DEFICIT OF \$500 MILLION IS 50 PERCENT LOWER THAN THE OFFICIAL FORECAST. THIS DEFICIT COMPARES WITH A DEFICIT OF \$4.7 BILLION IN 1974, \$3.5 BILLION IN 1975, AND \$2.2 BILLION LAST YEAR. WHILE THIS IS NOT AN INSIGNIFICANT ADJUSTMENT TO THE EXTERNAL CONDITIONS CREATED IN GREAT PART BY THE OIL CRISIS, MOST OBSERVERS BELIEVE THAT THE PROCESS OF ADJUSTMENT HAS NOT BEEN FAST ENOUGH.

10. SERVICES: ONE REASON WHY BRAZIL NEEDS TO BRING THE TRADE ACCOUNT INTO SURPLUS IN THE NEAR FUTURE IS THE FACT THAT THE SERVICES DEFICIT HAS BECOME, AND WILL CONTINUE TO BE, A HEAVY BURDEN ON THE BALANCE OF PAYMENTS. IN 1977, THIS DEFICIT IS FORECAST AT \$4,161 MILLION, OF WHICH ABOUT HALF IS ACCOUNTED FOR BY THE CONFIDENTIAL

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INTEREST COST OF THE FOREIGN DEBT. WITH INTEREST PAYMENTS ON FOREIGN DEBT ON THE RISE, AND WITH LITTLE LIKELIHOOD THAT THE FREIGHT, TOURISM AND DIVIDENDS REMITTANCES ACCOUNTS WILL SHOW MUCH IMPROVEMENT IN THE IMMEDIATE FUTURE, THE OUTLOOK FOR THE SERVICES ACCOUNT IS FOR CONTINUED LARGE DEFICITS.

11. CURRENT ACCOUNT AND FINANCIAL GAP: OUR ESTIMATED CURRENT ACCOUNT DEFICIT OF \$4,661 MILLION REPRESENTS A REDUCTION OF \$1.3 BILLION FROM LAST YEAR'S TOTAL AND FOR THE FIRST TIME SINCE THE OIL CRISIS THIS DEFICIT IS EXPECTED TO DROP BELOW 5.0 PERCENT OF GDP. BECAUSE OF THE RISE IN DEBT AMOTIZATION PAYMENTS, HOWEVER, WE ESTIMATE ONLY A \$500 MILLION IMPROVEMENT IN THE TOTAL FOREIGN FINANCIAL GAP (CURRENT ACCOUNT DEFICIT PLUS PRICIPAL DEBT AMORTIZATION PAYMENTS), WHICH IS EXPECTED TO DROP TO \$8,061 MILLION FROM \$8,560 MILLION. (THE PRINCIPAL DEBT AMORTIZATION OF \$3.4 BILLION FOR 1977 IS OUR OWN ESTIMATE SINCE

THE CENTRAL BANK FORECASTS ONLY THE CURRENT ACCOUNT).

12. FINANCING: THE OFFICIAL FORECAST DOES NOT PROVIDE A BREAKDOWN OF THE FINANCING OF THE CURRENT ACCOUNT DEFICIT, EXCEPT TO INDICATE THAT OFFICIAL RESERVES ARE NOT EXPECTED TO CHANGE. OUR WORKING ASSUMPTION, HOWEVER, IS FOR A \$500 MILLION REDUCTION IN OFFICIAL RESERVES. WE BELIEVE THE AUTHORITIES WILL BE REQUIRED TO DIP INTO RESERVES THIS YEAR IN LIGHT OF THE EXPECTED TIGHTENING UP OF CREDIT CONDITIONS IN THE EURO-DOLLAR MARKET. IN 1976, BRAZIL BORROWED MORE THAN IT NEEDED, AND THUS INCREASED ITS OFFICIAL RESERVES BY \$2.4 BILLION, IN ANTICIPATION OF "HARDER TIMES" DURING 1977. AS IT DID LAST YEAR, BRAZIL WILL AGAIN RECEIVE SOME FINANCING IN SHORT-TERM FORM. BANKS ARE LOOKING TOWARD IMPROVING THE COMPOSITION OF THEIR BRAZIL PORTFOLIOS WHICH ARE HEAVILY WEIGHTED WITH LONG-TERM DEBT. THIS SHORT-TERM LENDING IS INDICATED IN THE BALANCE OF PAYMENTS TABLE (PARA 2) BY THE CHANGE IN THE COMMERCIAL BANKS POSITION (\$500 MILLION) AND PERHAPS BY ANOTHER \$100-200 MILLION IN IMPORT FINANCING.

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13. DEBT, DEBT BURDEN AND RESERVES: BASED ON OUR BALANCE OF PAYMENTS PROJECTIONS, BRAZIL'S FOREIGN DEBT SHOULD RISE BY ABOUT \$2.0 BILLION THIS YEAR, AS COMPARED TO AN INCREASE OF \$6.3 BILLION LAST YEAR. AT THE END OF 1977, THEREFORE, THE FOREIGN DEBT IS ESTIMATED AT AROUND \$29.5 BILLION (THE FINAL 1976 DEBT STATISTICS HAVE NOT YET BEEN PUBLISHED BUT WE HAVE BEEN TOLD UNOFFICIALLY THAT THE FIGURE WAS \$27.5 BILLION). THE TOTAL DEBT BURDEN (DEBT SERVICE/EXPORTS) IN 1977 IS PROJECTED AT 45.9 PERCENT, UP FROM 42.8 PERCENT IN 1976. TOTAL RESERVES ARE ESTIMATED AT \$5.9 BILLION, DOWN FROM \$6.4 BILLION AT THE END OF 1976.

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Status: NATIVE
Subject: BALANCE OF PAYMENTS FORECAST
TAGS: EFIN, BR
To: STATE
Type: TE
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